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ANNALS OF BUSINESS

The Uses of Adversity

Can underprivileged outsiders have an advantage?

by Malcolm Gladwell

1.

Sidney Weinberg was born in 1891, one of eleven children of Pincus Weinberg, a struggling Polish-born liquor wholesaler and bootlegger in Brooklyn. Sidney was short, a "Kewpie doll," as the New Yorker writer E. J. Kahn, Jr., described him, "in constant danger of being swallowed whole by executive-size chairs." He pronounced his name "Wine-boig." He left school at fifteen. He had scars on his back from knife fights in his preteen days, when he sold evening newspapers at the Hamilton Avenue terminus of the Manhattan-Brooklyn ferry.

At sixteen, he made a visit to Wall Street, keeping an eye out for a "nice-looking, tall building," as he later recalled. He picked 43 Exchange Place, where he started at the top floor and worked his way down,

asking at every office, "Want a boy?" By the end of the day, he had reached the third-floor offices of a small brokerage house. There were no openings. He returned to the brokerage house the next morning. He lied that he was told to come back, and bluffed himself into a job assisting the janitor, for three dollars a week. The small brokerage house was Goldman Sachs.

From that point, Charles Ellis tells us in a new book, "The Partnership: The Making of Goldman Sachs," Weinberg's rise was inexorable. Early on, he was asked to carry a flagpole on the trolley uptown to the Sachs family's town house. The door was opened by Paul Sachs, the grandson of the firm's founder, and Sachs took a shine to him. Weinberg was soon promoted to the mailroom, which he promptly reorganized. Sachs sent him to Browne's Business College, in Brooklyn, to learn penmanship. By 1925, the firm had bought him a seat on

the New York Stock Exchange. By 1927, he had made partner. By 1930, he was a senior partner, and for the next thirty-nine years—until his death, in 1969—Weinberg was Goldman Sachs, turning it from a floundering, mid-tier partnership into the premier investment bank in the world.

2.

The rags-to-riches story—that staple of American biography—has over the years been given two very different interpretations. The nineteenth-century version stressed the value of compensating for disadvantage. If you wanted to end up on top, the thinking went, it was better to start at the bottom, because it was there that you learned the discipline and motivation essential for success. "New York merchants preferred to hire

country boys, on the theory that they worked harder, and were more resolute, obedient, and cheerful than native New Yorkers," Irvin G. Wyllie wrote in his 1954 study "The Self-Made Man in America." Andrew Carnegie, whose personal history was the defining self-made-man narrative of the nineteenth century, insisted that there was an advantage to being "cradled, nursed and reared in the stimulating school of poverty." According to Carnegie, "It is not from the sons of the millionaire or the noble that the world receives its teachers, its martyrs, its inventors, its statesmen, its poets, or even its men of affairs. It is from the cottage of the poor that all these spring."

Today, that interpretation has been reversed. Success is seen as a matter of capitalizing on socioeconomic advantage, not compensating for disadvantage. The mechanisms of social mobility—scholarships, affirmative action, housing vouchers, Head Start—all involve attempts to convert the poor from chronic outsiders to insiders, to rescue them from what is assumed to be a hopeless state. Nowadays, we don't learn from poverty, we escape from poverty, and a

book like Ellis's history of Goldman Sachs is an almost perfect case study of how we have come to believe social mobility operates. Six hundred pages of Ellis's book are devoted to the modern-day Goldman, the firm that symbolized the golden era of Wall Street. From the boom years of the nineteen-eighties through the great banking bubble of the past decade, Goldman brought impeccably credentialed members of the cognitive and socioeconomic élite to Wall Street, where they conjured up fantastically complex deals and made enormous fortunes. The opening seventy-two pages of the book, however, the chapters covering the Sidney Weinberg years, seem as though they belong to a different era. The man who created what we know as Goldman Sachs was a poor, uneducated member of a despised minority—and his story is so remarkable that perhaps only Andrew Carnegie could make sense of it.

3.

Weinberg was not a financial wizard. His gifts were social. In his heyday, Weinberg served as a director on thirty-one corporate boards. He averaged two hundred and fifty committee or board meetings a year, and when he

was not in meetings he would often take a steam at the Hotel Biltmore's Turkish baths with the likes of Robert Woodruff, of Coca-Cola, and Bernard Gimbel, of Gimbels. During the Depression, Weinberg served on Franklin Roosevelt's Business Advisory and Planning Council, and F.D.R. dubbed him the Politician, for his skill at mediating among contentious parties. He spent the war years as the vice-chairman of the War Production Board, where he was known as the Body Snatcher, because of the way he persuaded promising young business executives to join the war effort. (Weinberg seems to have been the first to realize that signing up promising young executives for public service during the war was the surest way to sign them up as clients after the war.)

When Ford Motor Company decided to go public, in the mid-nineteen-fifties, in what remains one of the world's biggest initial public offerings, both major parties in the hugely complicated transaction—the Ford family and the Ford Foundation—wanted Weinberg to represent them. He was Mr. Wall Street. "In his role as the power behind the throne," E. J. Kahn wrote in a New Yorker Profile of

Weinberg, fifty years ago, "he probably comes as close as Bernard Baruch to embodying the popular conception of Bernard Baruch." Kahn went on:

There is hardly a prominent corporation executive of whom he cannot—and, indeed, does not—say, "He's an intimate close personal friend of mine." . . . Industrialists who want information about other industrialists automatically turn to Weinberg, much as merchants consult credit-rating agencies. His end of many telephone conversations consists of fragments like "Who? . . . Of course I know him. Intimately. . . . Used to be Under-Secretary of the Treasury. . . . O.K., I'll have him call you."

This gregariousness is what we expect of the head of an investment bank. Wall Street—particularly the clubby Wall Street of the early and middle part of the twentieth century—was a relationship business: you got to do the stock offering for Continental Can because you knew the head of Continental Can. We further assume that businesses based on social ties reward cultural insiders. That's one of the reasons we no longer think of poverty as being useful in the nineteenth-

century sense; no matter how hard you work, or how disciplined you are, it is difficult to overcome the socially marginalizing effects of an impoverished background. In order to do the stock offering for Continental Can, you need to know the head of Continental Can, and in order to know the head of Continental Can it really helps to have been his classmate at Yale.

But Weinberg wasn't Yale. He was P.S. 13. Nor did he try to pretend that he was an insider. He did the opposite. "You'll have to make that plainer," he would say. "I'm just a dumb, uneducated kid from Brooklyn." He bought a modest house in Scarsdale in the nineteen-twenties, and lived there the rest of his life. He took the subway. He may have worked closely with the White House, but this was the Roosevelt White House, in the nineteen-thirties, at a time when none of the Old Guard on Wall Street were New Dealers. Weinberg would talk about his public school as if it were Princeton, and as a joke he would buy up Phi Beta Kappa keys from pawnshops and hand them out to visitors like party favors. His savvy was such that Roosevelt wanted to make him Ambassador to the Soviet Union, and his grasp of the intricacies of Wall Street was so shrewd that his phone

never stopped ringing. But as often as he could he reminded his peers that he was from the other side of the tracks.

At one board meeting, Ellis writes, "a long presentation was being made that was overloaded with dull, detailed statistics. Number after number was read off. When the droning presenter finally paused for breath, Weinberg jumped up, waving his papers in mock triumph, to call out 'Bingo!' " The immigrant's best strategy, in the famous adage, is to think Yiddish and dress British. Weinberg thought British and dressed Yiddish.

Why did that strategy work? This is the great mystery of Weinberg's career, and it's hard to escape the conclusion that Carnegie was on to something: there are times when being an outsider is precisely what makes you a good insider. It's not difficult to imagine, for example, that the head of Continental Can liked the fact that Weinberg was from nothing, in the same way that New York City employers preferred country boys to city boys. That C.E.O. dwelled in a world with lots of people who went to Yale and then to Wall Street; he knew that some of

them were good at what they did and some of them were just well connected, and separating the able from the incompetent wasn't always easy. Weinberg made it out of Brooklyn; how could he not be good?

Weinberg's outsidership also allowed him to play the classic "middleman minority" role. One of the reasons that the Parsi in India, the East Asians in Africa, the Chinese in Southeast Asia, and the Lebanese in the Caribbean, among others, have been so successful, sociologists argue, is that they are decoupled from the communities in which they operate. If you are a Malaysian in Malaysia, or a Kenyan in Kenya, or an African-American in Watts, and you want to run a grocery store, you start with a handicap: you have friends and relatives who want jobs, or discounts. You can't deny credit or collect a debt from your neighbor, because he's your neighbor, and your social and business lives are tied up together. As the anthropologist Brian Foster writes of commerce in Thailand:

A trader who was subject to the traditional social obligations and constraints would find it very difficult to run a viable business. If,

for example, he were fully part of the village society and subject to the constraints of the society, he would be expected to be generous in the traditional way to those in need. It would be difficult for him to refuse credit, and it would not be possible to collect debts. . . . The inherent conflict of interest in a face-to-face market transaction would make proper etiquette impossible or would at least strain it severely, which is an important factor in Thai social relations.

The minority has none of those constraints. He's free to keep social and financial considerations separate. He can call a bad debt a bad debt, or a bad customer a bad customer, without worrying about the social implications of his honesty.

Weinberg was decoupled from the business establishment in the same way, and that seems to have been a big part of what drew executives to him. The chairman of General Foods avowed, "Sidney is the only man I know who could ever say to me in the middle of a board meeting, as he did once, 'I don't think you're very bright,' and somehow give me the feeling that I'd been paid a compliment." That Weinberg could make a rebuke seem like a compliment is testament to his charm. That he felt free to

deliver the rebuke in the first place is testament to his sociological position. You can't tell the chairman of General Foods that he's an idiot if you were his classmate at Yale. But you can if you're Pincus Weinberg's son from Brooklyn. Truth-telling is easier from a position of cultural distance.

Here is Ellis on Weinberg, again:

Shortly after he was elected a director of General Electric, he was called upon by Philip D. Reed, GE's chairman of the board, to address a group of company officials at a banquet at the Waldorf Astoria. In presenting Weinberg, Reed said . . . that he hoped Mr. Weinberg felt, as he felt, that GE was the greatest outfit in the greatest industry in the greatest country in the world. Weinberg got to his feet. "I'll string along with your chairman about this being the greatest country," he began. "And I guess I'll even buy that part about the electrical industry. But as to GE's being the greatest business in the field, why, I'm damned if I'll commit myself until I've had a look-see." Then he sat down to vigorous applause.

At G.E., Weinberg's irreverence was cherished. During the Second World War, a top Vichy official, Admiral Jean-François Darlan, visited the White House. Darlan was classic French military, imperious and entitled, and was thought to have Nazi sympathies. Protocol dictated that the Allies treat Darlan with civility, and everyone did—save for Weinberg. The outsider felt perfectly free to say what everyone else wanted to but could not, and in so doing surely endeared himself to the whole room. "When it was time to leave," Ellis writes, "Weinberg reached into his pocket as he came to the front door, pulled out a quarter, and handed it to the resplendently uniformed admiral, saying, 'Here, boy, get me a cab.'"

The idea that outsiders can profit by virtue of their outsidership runs contrary to our understanding of minorities. "Think Yiddish, dress British" presumes that the outsider is better off cloaking his differences. But there are clearly also times and places where minorities benefit by asserting and even exaggerating their otherness. The Berkeley historian Yuri Slezkine argues, in "The Jewish Century" (2004), that Yiddish did not evolve

typically: if you study its form and structure, you discover its deliberate and fundamental artificiality—it is the language of people who are interested, in Slezkine's words, in "the maintenance of difference, the conscious preservation of the self and thus of strangeness."

Similarly, in field work in a Malaysian village, the anthropologist L. A. Peter Gosling observed a Chinese shopkeeper who

appeared to be considerably acculturated to Malay culture, and was scrupulously sensitive to Malays in every way, including the normal wearing of a sarong, quiet and polite Malay speech, and a humble and affable manner. However, at harvest time when he would go to the field to collect crops on which he had advanced credit, he would put on his Chinese costume of shorts and undershirt, and speak in a much more abrupt fashion, acting, as one Malay farmer put it, "just like a Chinese." This behavior was to insure that he would not be treated like a fellow Malay who might be expected to be more generous on price or credit terms.

Is this what Weinberg was up to with his constant references to P.S. 13? Ellis's book repeats stories about Weinberg from

Lisa Endlich's 1999 history, "Goldman Sachs: The Culture of Success," which in turn repeats stories about Weinberg from Kahn's Profile, which in turn—one imagines—repeats stories honed by Weinberg and his friends over the years. And what is clear when you read those stories is how obviously they are stories: anecdotes clearly constructed for strategic effect. According to Ellis:

A friend told of Weinberg's being the guest of honor at J. P. Morgan's luncheon table, where the following exchange occurred:

"Mr. Weinberg, I presume you served in the last war?"

"Yes, sir, I was in the war—in the navy."

"What were you in the navy?"

"Cook, Second Class."

Morgan was delighted.

Of course, J. P. Morgan wasn't actually delighted. He died in 1913, before the First World War started. So he wasn't the mogul at the table. But you can understand why Weinberg would want to pretend that he was. And although Weinberg did a stint as a cook (on account of poor eyesight), he quickly got himself transferred to the Office of Naval Intelligence, and then spent most of the war heading up the

inspection of all vessels using the port of Norfolk. But you can understand why that little bit of additional history doesn't fit, either.

Here's another one:

The heir to a large retailing fortune once spent a night in Scarsdale with the Weinbergs and retired early. After Weinberg and his wife, whose only servant was a cook, had emptied the ashtrays and picked up the glasses, they noticed that their guest had put his suit and shoes outside his bedroom door. Amused, Weinberg took the suit and shoes down to the kitchen, cleaned the shoes, brushed the suit, and put them back. The following day, as the guest was leaving, he handed Weinberg a five dollar bill and asked him to pass it along to the butler who had taken such excellent care of things. Weinberg thanked him gravely and pocketed the money.

Let's see: we're supposed to believe that the retailing heir has dinner at the modest Weinberg residence in Scarsdale and never once sees a butler, and doesn't see a butler in the morning, either, and yet somehow remains convinced that there's a butler around. Did he imagine the butler was

hiding in a closet? No matter. This is another of those stories which Weinberg needed to tell, and his audience needed to hear.

4.

It's one thing to argue that being an outsider can be strategically useful. But Andrew Carnegie went farther. He believed that poverty provided a better preparation for success than wealth did; that, at root, compensating for disadvantage was more useful, developmentally, than capitalizing on advantage.

This idea is both familiar and perplexing. Consider the curious fact that many successful entrepreneurs suffer from serious learning disabilities. Paul Orfalea, the founder of the Kinko's chain, was a D student who failed two grades, was expelled from four schools, and graduated at the bottom of his high-school class. "In third grade, the only word I could read was 'the,' " he says. "I used to keep track of where the group was reading by following from one 'the' to the next." Richard Branson, the British billionaire who started the Virgin empire, dropped out of school at fifteen after struggling with reading and writing. "I was always bottom

of the class," he has said. John Chambers, who built the Silicon Valley firm Cisco into a hundred-billion-dollar corporation, has trouble reading e-mail. One of the pioneers of the cellular-phone industry, Craig McCaw, is dyslexic, as is Charles Schwab, the founder of the discount brokerage house that bears his name. When the business-school professor Julie Logan surveyed a group of American small-business owners recently, she found that thirty-five per cent of them self-identified as dyslexic.

That is a remarkable statistic. Dyslexia affects the very skills that lie at the center of an individual's ability to manage the modern world. Yet Schwab and Orfalea and Chambers and Branson seem to have made up for their disabilities, in the same way that the poor, in Carnegie's view, can make up for their poverty. Because of their difficulties with reading and writing, they were forced to develop superior oral-communication and problem-solving skills. Because they had to rely on others to help them navigate the written word, they became adept at delegating authority. In one study, conducted in Britain, eighty per cent of dyslexic

entrepreneurs were found to have held the position of captain in a high-school sport, versus twenty-seven per cent of non-dyslexic entrepreneurs. They compensated for their academic shortcomings by developing superior social skills, and, when they reached the workplace, those compensatory skills gave them an enormous head start. "I didn't have a lot of self-confidence as a kid," Orfalea said once, in an interview. "And that is for the good. If you have a healthy dose of rejection in your life, you are going to have to figure out how to do it your way."

There's no question that we are less than comfortable with the claims that people like Schwab and Orfalea make on behalf of their disabilities. As impressive as their success has been, none of us would go so far as to wish dyslexia on our own children. If a disproportionately high number of entrepreneurs are dyslexic, so are a disproportionately high number of prisoners. Systems in which people compensate for disadvantage seem to us unacceptably Darwinian. The stronger get stronger, and the weaker get even weaker. The man who boasts of walking seven miles to

school, barefoot, every morning, happily drives his own grandchildren ten blocks in an S.U.V. We have become convinced that the surest path to success for our children involves providing them with a carefully optimized educational experience: the "best" schools, the most highly educated teachers, the smallest classrooms, the shiniest facilities, the greatest variety of colors in the art-room paint box. But one need only look at countries where schoolchildren outperform their American counterparts—despite larger classes, shabbier schools, and smaller budgets—to wonder if our wholesale embrace of the advantages of advantages isn't as simplistic as Carnegie's wholesale embrace of the advantages of disadvantages.

In E. J. Kahn's Profile, he tells the story of a C.E.O. retreat that Weinberg attended, organized by Averell Harriman. It was at Sun Valley, Harriman's ski resort, where, Kahn writes, it emerged that Weinberg had never skied before:

Several corporation presidents pooled their cash resources to bet him twenty-five dollars that he could not ski down the steepest and longest slope in the area. Weinberg was approaching fifty but game. "I got hold of an instructor named Franz

Something or Fritz Something and had a thirty minute lesson," he says. "Then I rode up to the top of the mountain. It took me half a day to come down, and I finished with only one ski, and for two weeks I was black and blue all over, but I won the bet."

Here you have the Waspy élite of corporate America, off in their mountain idyll, subjecting the little Jew from Brooklyn to a bit of boarding-school hazing. (In a reminder of the anti-Semitism permeating Weinberg's world, Ellis tells us that, in the Depression, Manufacturers Trust, a predominantly Jewish company, had to agree to install a Gentile as C.E.O. as a condition of being rescued by a coalition of banks.) It is also possible, though, to read that story as highlighting the determination of the Brooklyn kid who'll be damned if he's going to let himself lose a bet to those smirking C.E.O.s. One imagines that Weinberg told that tale the first way to his wife, and the second way to his buddies in the Biltmore steam room. And when he tried to get out of bed the next morning it probably occurred to him that sometimes being humiliated provides a pretty good opportunity to show a lodge full of potential clients that

you would ski down a mountain for them.

Twenty years later, Weinberg had his greatest score, handling the initial public offering for Ford Motor Company, which was founded, of course, by that odious anti-Semite Henry Ford. Did taking the business prick Weinberg's conscience? Maybe so. But he probably realized that the unstated premise behind the idea that the Jews control all the banks is that Jews are really good bankers. The first was a stereotype that oppressed; the second was a stereotype that, if you were smart about it, you could use to win a few clients. If you're trying to build an empire, you work with what you have.

5.

In 1918, Henry Goldman, one of the senior partners of Goldman Sachs, quit the firm in a dispute over Liberty Bonds. Goldman was a Germanophile, who objected to aiding the Allied war effort. (This is the same Henry Goldman who later bought the twelve-year-old Yehudi Menuhin a Stradivarius and Albert Einstein a yacht.) The Sachs brothers—Walter and Arthur—were desperate for a

replacement, and they settled, finally, on a young man named Waddill Catchings, a close friend of Arthur Sachs from Harvard. He had worked at Sullivan & Cromwell, Wall Street's great patrician law firm. He had industrial experience, having reorganized several companies, and "on top of all that," Ellis tells us, "Catchings was one of the most talented, charming, handsome, well-educated, and upwardly mobile people in Wall Street."

Catchings's bold idea was to create a huge investment trust, called the Goldman Sachs Trading Corporation. It was a precursor to today's hedge funds; it borrowed heavily to buy controlling stakes in groups of corporations. The fund was originally intended to be twenty-five million dollars, but then Catchings, swept up in the boom market of the nineteen-twenties, doubled it to fifty million, doubled it again to a hundred million, then merged the Goldman fund with another fund and added two subsidiary trusts, until G.S.T.C. controlled half a billion dollars in assets.

"Walter and Arthur Sachs were travelling in Europe during the summer of 1929," Ellis writes. "In Italy they learned of the deals Catchings was doing on his own, and

Walter Sachs got worried. On his return to New York, he went straight to Catchings' apartment in the Plaza Hotel to urge greater caution. But Catchings, still caught up in the bull-market euphoria, was unmoved. "The trouble with you, Walter, is that you've no imagination," he said.

Then came the stock-market crash. G.S.T.C. stock, which had traded as high as three hundred and twenty-six dollars a share, fell to \$1.75. Goldman's capital was wiped out. The firm was besieged with lawsuits, the last of which was not settled until 1968. Eddie Cantor—one of the most popular comedians of the day and a disgruntled G.S.T.C. investor—turned the respected Goldman name into a punch line: "They told me to buy the stock for my old age . . . and it worked perfectly. Within six months I felt like a very old man!" Catchings was ousted. "Very few men can stand success," Walter Sachs concluded. "He was not one of them." Privilege did not prepare Catchings for crisis. The Sachs brothers then replaced Catchings with a man who was not from privilege at all, and perhaps now we can appreciate the wisdom of that decision. Wall Street needs a few less Waddill Catchingses and a few more Sidney Weinbergs.

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